COUNTY ADMINISTRATIVE OFFICE

ASSISTANT COUNTY ADMINISTRATIVE OFFICERS:
WARREN D. CANTRELL
ADMINISTRATIVE MANAGEMENT
ADMINISTRATIVE SERVICES SYSTEM
FISCAL SERVICES SYSTEM
WILBUR S. WAGSTAFF
PERSONNEL MANAGEMENT DIVISION

DEPUTY COUNTY ADMINISTRATIVE OFFICERS:
ERNEST K. MORISHITA
HUMAN SERVICES SYSTEM
ROBERT A. BUTLER
ENVIRONMENTAL MANAGEMENT SYSTEM
STANLEY D. GREENE
JUSTICE SERVICES SYSTEM
EDUCATION RECREATION SYSTEM

MELVYRN G. WINGETT
COUNTY ADMINISTRATIVE OFFICER

AGENDA ITEM NO. 14

March 21, 1978

To: Board of Supervisors

Subject: Comparison of Jarvis/Gann Initiative (Proposition 13) and the Behr Bill (SB 1 and Proposition 8) and their Impact on County Government.

Summary

Your Board has requested us to examine and report on two major property tax relief measures -- the Jarvis/Gann Initiative (Proposition 13) and the recently enacted Behr Bill (SB 1 - Proposition 8). Both measures would provide significant property tax relief to the local taxpayer and would provide limitations in the amount of tax revenue available for local government operations. While they are similar in purpose, they differ greatly in approach and degree of impact upon county government.

SENATE BILL 1 - PROPOSITION 8

On March 3, 1978 the Governor signed SB 1 (Behr), bringing to an end several months of legislative effort directed at property tax relief. The approved measure not only provides relief to the property taxpayer and renter, but also removes the burden of some of the major state mandated programs from property tax support.

Basic Provisions

* Limits growth of local property tax revenues to growth in the Gross National Product price deflator, plus new construction (approximately 8½%).

* Provides for split assessment roll, and different tax rates on "owner occupied dwellings" and "other property."

* Limits growth in state mandated programs for California Medical Assistance (Medi-Cal) and State Supplemental Income (SSI) to the same amount as the local revenue limit.

* Will provide a 30% reduction in the property tax on "owner occupied dwellings," and the State will reimburse local agencies for this loss.

* Expands renters credit from $37 to $75.

* Expands property tax relief for senior citizens.

* Is tied to passage of Proposition 8 on the June ballot, which allows for a lower tax rate on "owner occupied dwellings."

Comments

SB 1 (Behr) directs the majority of its tax relief to the homeowner. This is accomplished by a split assessment roll reflecting "owner occupied" (homeowner) as one portion, with the remainder of the roll classified as "other property".

The first phase of tax relief comes in the form of a limit on the amount of property tax revenues that local government can raise. Revenues will be tied to the growth in the Gross National Product price deflator (approximately 6½% per year). These limits will apply to both the "homeowner" and "other" rolls. Additionally, new construction (estimated at 2% in Fresno County) will bring the total revenue available to approximately 8½%. Although, assessed values will continue to be adjusted based upon market values, the taxpayers will be protected from having local agencies increase their total tax levies more than the Gross National Product price deflator index.

While local government will be limited in new property tax revenues, the State will also put a limit on the growth of two County health and welfare programs -- Medi-Cal and SSI. The County's 1977-78 obligation in these areas totals $17,450,860. This is a 100% County cost, and its growth is presently tied to increases in County assessed value (AV). The growth in AV has exceeded 8½% over the past few years. In an effort to allow counties to live within the new revenue limits, the State will hold increases in the County cost of these two programs to the same percent increase as is allowed for revenue (approximately 8½%).

Beyond the limits imposed on tax growth, the "homeowners" assessment roll will receive a substantial reduction in property tax obligation. The County must first remove the cost of certain State mandated health and welfare programs from the homeowner, and reduce the County's homeowner tax rate accordingly. These programs are Medi-Cal, SSI, Aid to Families with Dependent Children (AFDC), and Boarding Homes and Institutions (BHI). In addition to the removal of these high cost programs, SB 1 provides a further reduction that insures that each homeowner's total property tax rate will be reduced by 30%. The State will reimburse the County and other local agencies for the loss of property tax revenue caused by these "homeowner" reductions.

As the "homeowner" tax rate will be substantially lower than that applied to "other property", it is necessary that Proposition 8 on the June ballot be passed in order for SB 1 to become operative. The proposition would amend the Constitution to authorize the State Legislature to allow taxation of owner-occupied dwellings at lower property tax rates than those applied to all other types of property.

SB 1 also directs relief to the senior citizen homeowner and renter by enriching the homeowners assistance schedules now in effect. Maximum assistance to elderly homeowners will be increased to $1,500 from the present limit of approximately $850. The maximum relief to renters will be increased from $220 to $250. The maximum income limit has also been raised from $12,000 to $13,000 to allow more senior citizens to participate in the property tax assistance program.

Fiscal Impact

The estimated amount of homeowner relief statewide, and the State cost of reimbursement to local government, are shown below:

	(Shown in Millions)		
	1978-79	1979-80	1980-81
30% Homeowner Relief	$ 1,205	$ 1,352	$ 1,486
Renters Credit	165	170	175
Senior Citizens-Homeowners	22	22	22
Senior Citizens-Renters	60	59	57
Medi-Cal - SSI Limit	14	25	34
	$ 1,466	$ 1,628	$ 1,774

The State cost of SB 1 is to be financed by budget surpluses, and no additional or increased State taxes are required. The primary fiscal impact on County government will be the limitation in growth of property tax financing.

JARVIS/GANN INITIATIVE -- PROPOSITION 13

On December 23, 1977, the Secretary of State verified that a citizens initiative sponsored by Howard Jarvis and Paul Gann had qualified for the June ballot. The initiative is aimed at providing significant property tax relief and easily qualified for the ballot with more than 1.2 million signatures. If approved by the voters, it will take effect 25 days later, and become the basis for the 1978-79 local agency budgets.

Basic Provisions

* Limits ad valorem property taxes to a maximum of 1% of full cash value. This would limit the tax rate to $4/$100 AV on real property.

* Exempts existing voter approved bonded indebtedness from the 1% limit.

* Requires County to collect the 1% and "apportion according to law" to districts within the County.

* Freezes "full cash value" at the Assessor's valuation of 1975-76.

* Limits increases in fair market value to growth in Consumer Price Index, but not to exceed 2% per year.

* Permits property to be reassessed to current value only when newly constructed or upon change in ownership.

* Allows local agencies to impose special taxes only by a 2/3 vote of the "qualified electors", except that no new ad valorem taxes may be imposed on real property.

* Requires 2/3 vote of Legislature to raise State taxes.

Comments

Due to the construction of the initiative, many areas of impact are uncertain and require assumptions to be made as to the intent of the measure. In our analysis that follows, we will try to highlight these areas. For the purpose of reviewing the measure, we have used the generally accepted interpretations in reports by the California Taxpayers Association, other California counties, and the League of California Cities.

Tax Relief Provisions

Unlike SB 1, which directs its relief to the homeowner, Jarvis/Gann offers an across-the-board rate reduction to all real property. There is a question, however, as to whether the 1% rate limit applies equally to the unsecured roll. For the purpose of our review, we have assumed that Proposition 13 limits only the secured roll.

1) On a statewide basis, as well as in each county, the bulk of the taxable property is under business or commercial ownership. The homeowner would receive only 34% of the projected tax relief offered by this measure. The Assembly Revenue and Taxation Committee has prepared the following chart to illustrate this point:

1978-79	MILLIONS OF DOLLARS RELIEF	PERCENT
Homeowner	$ 2,391	34%
Business or Income Producing	3,940	56%
State of California	700	10%
TOTAL	$ 7,031	100%

The relief shown for the State of California is the reduction in homeowner exemption reimbursements to local agencies. Substantial relief is granted business and commercial property, but there is no guarantee that any of the savings will be passed on to renters or consumers.

2) While the relief is granted across-the-board to all property, its impact upon the individual taxpayer will vary depending upon the location of the property. Countywide property tax reductions will average approximately 60% under Jarvis/Gann in 1978-79. The variance on individual taxpayers comes when the maximum $4.00 rate is applied. Total tax rates currently levied in Fresno County vary from a low of $7.48 to a high of $14.26. Under the maximum rate of $4.00 in Jarvis/Gann, the tax savings would be $3.48 or 45.5% in the low rate area, compared to $10.26 or 71.9% in the high rate area.

3) A further inequity is created by reappraising property on change in ownership. Homes resell much more frequently than business properties. Over the long run, the property tax burden would tend to shift toward residential properties. Also, the same situation will arise where like homes located in the same block will have varying property tax costs due to the fact that some have been resold and revalued, while others retain their 1975-76 value.

4) The measure will essentially eliminate the logic behind financing special taxing districts and cities. All property owners will pay the same tax rate regardless of the services they receive from cities and special purpose taxing districts. If the total tax levy is distributed in proportion to prior tax levies, property owners in rural areas will be subsidizing the urban services provided in cities and special districts.

Fiscal Impact

In order to assess the impact of the measure, we have to determine how the available revenues under Jarvis/Gann would be distributed. The measure requires the County to collect and distribute the revenue "according to law". This will require legislative or court interpretations as there is no law governing such a distribution. For our figures, we have assumed that local agencies will receive tax revenues in proportion to their share of the total taxes levied in the County for 1977-78.

1) Statewide

The Assembly Revenue and Taxation Committee has prepared the following showing statewide impact on local agencies.

(Shown in Millions)

	Total Revenue 1978-79	Property Tax Loss	% Drop In Total Revenue
Cities	$ 8,172	$ 731	8.9%
Counties	9,019	2,159	23.9%
Special Districts	4,885	450	9.2%
Schools	11,785	3,691	31.3%
TOTAL	$ 33,861	$ 7,031	20.8%

2) Countywide

Below is the anticipated reduction of secured property taxes collected by all local taxing agencies in Fresno County. Under our assumptions, the unsecured property taxes would remain unchanged for 1978-79 by passage of the proposition.

(Shown in Millions)

Agency	Actual Secured Tax Levy 1977-78	Under Jarvis Limit 1978-79	Tax Loss
County	$ 55.9	$ 19.2	$ 36.7
Cities	15.3	5.2	10.1
Special Districts	13.2	4.5	8.7
Schools	88.1	30.2	57.9
TOTAL	$ 172.5	$ 59.1	$ 113.4
PERCENT	100.0%	34.3%	65.7%

3) County of Fresno

The exact impact on the County is difficult to determine as the measure speaks only of reductions in available property tax revenues. There is no requirement for replacement of lost revenues by the State. However, it is logical to assume that the State may not allow vital local services to suffer the full impact of this revenue loss. Some measure of relief could be provided by the State, and some possible approaches are discussed later. Lacking knowledge of what such relief would be, our figures show the effects of Jarvis/Gann with no replacement of lost revenues. Any assistance offered by the State would serve to lessen the severe impact shown on the County.

In order to better see the effect on local services, we have shown the existing 1977-78 County budget compared to what it would be if Jarvis/Gann were in effect in the current year. We are showing the impact on the County's General Fund only. Both the Library and the Department of Education, which have separate tax rates, would suffer equivalent reductions in revenue and service provided.

GENERAL FUND

	1977-78 Final Budget	1977-78 Under Prop. 13	Change In Available Financing
Secured Property Tax	$ 52,342,210	$ 17,405,736	$(- 34,936,474)
Unsecured Property Tax	4,163,535	4,163,535	-
Homeowners-Business Inventory Reimbursement	7,960,915	3,411,226	(- 4,549,689)
Interest	970,000	646,699	(- 323,301)
TOTAL	65,436,660	25,627,196	(- 39,809,464)
LESS: Medi-Cal, SSI, Share Reduction Due to Lower AV			(- 2,654,276)
NET REVENUE LOSS			$(- 37,155,188)

In addition to the losses shown above, in 1979-80 the unsecured tax rate, which is based on the prior year secured rate, would also be reduced to the $4.00 Jarvis/Gann limit for an additional loss of $2,735,422. Coupled with that, our Federal Revenue Sharing allocations are based on a tax effort formula, and we would anticipate a sizeable reduction in these figures for 1979-80.

The figures for 1977-78 show a total property tax related revenue of $25,627,196 under the Jarvis/Gann limit. Listed below are the 1977-78 County costs in the major State-mandated areas alone:

	ACTUAL NET COUNTY COST 1977-78	NET COUNTY COST UNDER JARVIS/GANN 1977-78
Medi-Cal	$ 13,264,890	$ 11,247,300
SSI-SSP	4,185,970	3,549,284
Welfare Aid	7,860,446	7,860,446
Welfare Administration	2,187,760	2,187,760
Superior, Municipal, and Justice Courts	2,682,325	2,682,325
	$ 30,181,391	$ 27,527,115

Financing just the County cost of these few mandates exceeds the County's entire property tax capability by almost $2 million. Assuming we finance the above requirements, and the operation of the Community Development Program continues ($7,791,000 - completely offset by Federal revenue), this leaves the County with some $75,312,900 in remaining budget obligation in the current year. Under Jarvis/Gann, however, there would be only a total $38,157,712 in remaining revenues with which to finance those services. As the County cuts back in the remaining areas, we would experience further shrinkage in revenues as we loose State and Federal matching money. As an example, with each County dollar removed from the mental health area, we would loose nine dollars in Short-Doyle State funding.

It is estimated that the $75 million in remaining County budget would need to be reduced approximately 60% to bring us in line with available financing. This would result in the layoff of approximately 2,000 to 2,500 County employees, which could be spread through all service areas. The choice of where to make these cuts will rest with the Board of Supervisors.

State Relief

In analyzing the tax structure, it is apparent that property tax relief can only be brought about by either drastic cut backs in local services, or by shifting costs to other tax sources. In California, property, sales, and income taxes make up 88% of the total tax revenue. If other revenue sources are to replace the property tax, then it is likely that the sales and income tax would be the vehicle. Since the great majority of County services, and property tax dollars are devoted to performing State mandated programs, it seems reasonable to believe that the State should provide either financial support or relief from existing mandates. Until the State Legislature makes its position clear with regard to the Jarvis/Gann Initiative, it is virtually impossible to make financing plans or to measure the effect of Proposition 13.

1) SB 1569 (Rodda)

This proposed legislation provides replacement revenues and attempts to have business continue to pay its current share of taxes. The Legislation would increase the sales tax by 1% ($1.1 billion), State income taxes by 20% ($1.2 billion), and bank and corporation tax by 40% ($850 million), and would impose a sales tax of 7% on professional services ($2.1 billion). These increases raise $5.25 billion, leaving $2 billion to come from State surpluses if all local agency services are to be retained.

CONCLUSION

The objective of both SB 1 and the Jarvis/Gann Initiative is to reduce the burden of rapidly rising property tax levies, a goal shared by the public and local government officials alike.

On the surface, the Jarvis/Gann Initiative offers a more substantial tax reduction to the property owner. However, because it addresses only the property tax issue, it may either cause a massive shift in tax burden to State revenue sources, or cause a drastic cut back in local agency services. Due to its arbitrary limit, it fails to acknowledge that many essential as well as discretionary local services may be eliminated if replacement revenues are not created. This arbitrary approach also gives rise to questions about the equity of the taxing approach under Jarvis/Gann. The measure requires the public to vote for tax relief without knowing the consequences.

Senate Bill 1 appears to provide the first step in tax relief to the homeowner with no requirement for new or replacement revenues. It also begins to address some of the basic problems surrounding the property tax by removing certain health and welfare program costs from homeowner support.

RECOMMENDATION: It is recommended that your Board:

1. Oppose Proposition 13 because:

    a. It is a poorly drafted measure which fails to clarify for the voter its effect on the services of local agencies.

    b. In its universal tax limitation and reassessment provisions on real property it creates new inequities among property taxpayers and local agencies.

2. Support State legislation, (such as SB 1569-Rodda), which will assist in clarifying the ultimate effect Proposition 13 would have on all taxes and services.

3. Endorse Proposition 8, which will permit the implementation of SB 1 (Behr), which can serve as the first essential step in needed property tax reform.

M. G. Wingett

M. G. WINGETT
County Administrative Officer

MGW:WEB:lfd